Financial Plan Refresh
Public Comment Summary from grounding workshop
January 26, 2022

Row #	Stakeholder	Comment	BPA Response
1	NRU	NRU appreciates BPA's efforts to update its Financial Plan. To date, NRU sees alignment between NRU's financial refresh principles (outlined in a letter submitted January 22, 2022) and the goals that BPA has established to guide its financial refresh process.	Thank you for your comment.
2	Snohomish	Snohomish supports the goals and framework described in the workshop. In particular, Snohomish is encouraged to hear commitment from the Agency to move away from 100% debt financing to revenue financing a portion of Power and Transmission capital. This is standard utility practice. In general, Snohomish finds the methodology meets the goals and principles of sustainable capital financing as laid out in the workshop. The methodology looks promising to achieve the net neutral borrower goal, but would need periodic reassessment, possibly every rate period, to reflect changing conditions.	Thank you for your comment. We agree that periodic review of the policy, goals and metrics is a prudent, and aligns with the standard business practice of "plan, do, check, and adjust". We are interested in hearing ideas about ways to include, within the policy, flexibility to respond to changing circumstances.
3	Avangrid et al.	Overall, the Bonneville Financial Plan Refresh Presentation outlined an "Initial Approach" or "Goals" with respect to (i) revenue financing of 10 to 20 percent of "total capital", (ii) net neutral borrowing position, and (iii) 60 percent leverage ratio (debt to assets). Bonneville should explain how its "goals" or "approach" with respect to the Financial Plan Refresh are intended to affect	BPA would implement the policy in future rate cases absent a determination by the Administrator that the policy must be modified. For example, under the Leverage Policy, the rate case will not revisit whether BPA should allow a business line's debt-to-asset ratio to increase rate-period to rate-period. However, the Leverage Policy allows flexibility within rate cases for BPA to take additional actions, determined on a rate-case by rate-case basis, to achieve the mid- and long-

Row #	Stakeholder	Comment	BPA Response
		the scope of issues in rate cases. In that regard, the Financial Plan may inform Bonneville's initial proposal in rate cases but cannot and should not limit the scope of Bonneville's rate cases, which are statutorily defined.	term targets. The scope of rate case issues would depend on the terms of the policy. To that end, we are interested in hearing ideas about ways to include, within the policy, flexibility to respond to changing circumstances.
4	Avangrid et al.	At the Workshop, Bonneville provided overarching goals and principles for the Financial Plan Refresh, including achieving a leverage ratio no higher than 60 percent by 2040. According to Bonneville, this goal is a clearer articulation of the 2018 Financial Plan's long-term goal, which has been updated to ensure a net neutral borrowing position. The 2018 Financial Plan includes a mid-term goal of achieving a debt to asset ratio of 75 to 85 percent by 2028 and 60 to 70 percent over the long term. Bonneville's Leverage Policy also adds a near-term requirement of not allowing the debt-to-asset ratio to increase from rate period to rate period. NIPPC's presentation at the Workshop included an in-depth analysis of Bonneville's credit ratings, concluding that there is no compelling need to reduce Bonneville's debt to asset ratio much below 80 percent. In light of these statements, Commenting Parties ask that Bonneville respond to the material presented by NIPPC and explain whether 60 percent remains a reasonable leverage goal.	BPA continues to believe that the short-term goal of 60% debt-to-asset ratio is appropriate, as described in the January 26th workshop. The NIPPC presentation argued that reducing leverage would not improve BPA's credit rating, which was not BPA's intent. The Financial Plan objective is to "maintain high investment-grade ratings," not to improve BPA's ratings. Furthermore, our focus on reducing leverage has important benefits such as improving financial flexibility, reducing interest expense, and reducing exposure to a changing interest rate environment. BPA believes managing its leverage, along with other financial measures, to remain financially healthy is a sound business practice, commonly used across the utility industry. The NIPPC presentation refers to four other utilities. It was noted that they are not perfect comparisons, just as BPA has noted that there are no perfect comparisons among public utilities. All four are dependent on debt for capital financing, as is BPA, and as it will continue to be even with a capital financing policy. Three of the four utilities are entirely or majority owned by foreign governments (this includes government pension funds). All three appear to be regulated like an investor owned utility in the U.S. Unlike BPA, all three pay significant dividends to their owners, which provides an incentive to maximize borrowing. The government owners are able to adjust the dividend paid by the utility to meet the financial needs of the utility or the government. The Norwegian government, for example, cut the dividend from

Row #	Stakeholder	Comment	BPA Response
			Statnett in half in 2014-18 when the utility had ramped up its construction program, which appears as if the government was allowing the utility to use revenues to support the capital spending. The fourth utility, TVA, is unlike the other three with very little regulatory oversight. Like BPA, it does not pay a dividend to the Federal government. In recent years, TVA has dramatically increased debt repayment to improve its balance sheet. TVA is able to include in its rates "such additional margin as the TVA Board may consider desirable for investment in power system assets". The NIPPC paper notes that TVA has a debt to asset ratio in the mid-60's. (pg 21) To the extent these entities are comparable, the comparison supports taking action. Although other credit positives may compensate for BPA and these European entities' poor leverage position and prevent a downgrade, none of the reports suggest that an 80% leverage is a good thing. Fingrid demonstrates that new builds for renewable development, with a heavy reliance on debt, can strain financial metrics, which supports BPA taking steps to maintain financial flexibility. Hydro-Quebec has lower leverage than BPA (around 70%), even with much stronger government support than BPA. Moody's and S&P set Statnett's 80% leverage at the stand-alone equivalent of Baa2 and BBB levels. TVA has leverage in the 60's. These examples suggest BPA has room to improve on leverage for financial health. BPA agrees that there is no perfect peer for BPA to measure against, but we do find it reasonable to look at the utility industry in general to help gauge our direction. As discussed in the Jan 26th workshop, BPA is not aiming to be overly aggressive on its leverage goals, and is comfortable being at

Row #	Stakeholder	Comment	BPA Response
			the upper end of the spectrum for what is considered financially healthy for leverage goals, and to take a long-term approach to achieving this goal.
5	Avangrid et al.	Bonneville describes its updated leverage goal as closer to industry norms, without being overly conservative. Based on comments made during the workshop, Bonneville appears to have focused mainly on utilities in the Pacific Northwest when considering industry norms. NIPPC's presentation concludes that when compared to a more appropriate set of peers, including global transmission operators with connections to their host government, Bonneville's leverage appears more in line with its peers and more defensible. Commenting Parties ask Bonneville to consider this information provided by NIPPC and explain whether its presentation of industry norms remains reasonable and/or may be overly conservative.	The grounding presentation in October 2021 included comparisons to public utilities across the U.S. The pool included the largest public utilities in the U.S. TVA was in that pool and had notably better metrics that BPA. Bonneville believes that the comparisons to public utilities is reasonable. Ratings agencies include BPA in certain categories because they believe BPA has characteristics that are comparable to the other entities in the categories. Fitch includes BPA in its *Public Power-Peer Review* reports. Moody's includes BPA in its *Public Power Sector-in-Depth* reports. While BPA is not identical to any specific public utility, or even to the other power marketing administrations or TVA, ratings agencies believe these categories are a useful point of comparison. BPA's non-federal debt programs involve debt issued by non-federal entities, the repayment of which is secured by BPA's financial commitments. Such debt, issued by Energy Northwest, Port of Morrow, Oregon, and Idaho Energy Resources Authority, is issued in the municipal debt market. Although BPA itself is not a municipality, investors in that market will be comparing this debt backed by BPA against other municipal debt in making their investment decisions.
6	Avangrid et al.	Bonneville should explain why a 10 to 20 percent revenue financing goal is reasonable and consistent with the statutory requirement to establish rates to recover its costs (including amortization of the Federal investment over a reasonable period of years) in accordance with sound	BPA believes that an in-depth discussion of this principle is more appropriately addressed in the context of a Record of Decision. In general, though, it is BPA's view that adopting reasonable financial policies that support BPA's long-term financial health falls within the Agency's authority to set rates

Row #	Stakeholder	Comment	BPA Response
		business principles.	consistent with sound business principles. Among other reasons that this policy would be supported by sound business principles are the following: • BPA has discretion in how it chooses to finance its capital needs. BPA is not required to 100% debt finance its capital program. Revenue financing is one way BPA can pay for its capital needs. • How the utility industry as a whole functions can help inform whether a practice is consistent with sound business principles. Not relying entirely on debt to finance capital construction is a common industry practice. It is quite common to rate finance 40-60% of capital investments. • Revenue financing 10-20% of the capital program moves BPA away from the costly practice of 100% debt financing, and is principled to ensure that customers in each rate period contribute. Revenue financing will achieve our objectives of net neutral borrower status and 60% leverage at a measured pace that will take 20 years to achieve. This balances the benefits of lower costs, increased financial stability, and financial flexibility with near-term rate impact and intergenerational equity.
7	Avangrid et al.	Bonneville should explain why a net neutral borrowing position Goal is reasonable. Zero increase in net borrowing appears to be arbitrary and unnecessary, particularly in light of the recent, very substantial increase in Bonneville borrowing authority. For example, if Bonneville's revenues and capital investments were to increase by 10 percent why	Debt financing virtually 100% of the capital program has increased Transmission's total debt outstanding by $2 billion over the past 10 years, and Transmission debt is expected to grow by another $2 billion. It is also important to note that the majority of Transmission's capital investments are replacements of existing assets and facilities and not

Row #	Stakeholder	Comment	BPA Response
		shouldn't Bonneville's net borrowing position increase?	expansion projects. A net neutral borrowing position will arrest the growth of Transmission's debt and ensure a more consistent cost of service over time, rather than requiring future rates to deal with an ever increasing debt service load. BPA's access to a higher U.S. Treasury borrowing limit does not mean we should immediately use it all. Our goal is to manage this access and our overall debt portfolio responsibly. BPA is unaware of any other utility that allows its debt outstanding to grow unchecked. We suggested a phase in approach to move to a net neutral borrowing position and 60% leverage that ensures incremental rate impacts are limited to roughly 1% or less. Taking a net neutral position will ensure we drive toward the 60% leverage target. Ideally, the capital financing policy will include some flexibility for periodic assessment of progress and changing circumstances. Periodically revisiting our goals is a prudent and a standard business practice – the "plan, do, check, and adjust" model. We would like to hear ideas on ways to include such flexibility within the policy.
8	Powerex	Powerex was intrigued by the credible presentation and report from Mr. Oosterveld. Powerex would appreciate BPA providing a detailed response to the presentation and materials, and how this type of analysis will be incorporated or accounted for in the pre-rate case workshops and the rate case for BP-24.	See response to Avangrid et al., line 4.

Row #	Stakeholder	Comment	BPA Response
9	NRU	As expressed in NRU's financial refresh principles, our members are interested in further developing parameters that should be applied when BPA proposes the use of revenue financing.	We understand this question to be referring to the principles identified in the first NRU comment, but would like to hear more if "parameters" refers to something different. Regarding NRU's interest in using revenue financing to pay for shorter-lived assets, BPA believes that there is benefit in retaining the flexibility to use the funds for any asset. For instance, interest rates tend to grow as the maturity of the debt lengthens. Given this, it is more beneficial to use revenue financing in lieu of high interest, long-term debt rather than to avoid lower interest, short-term debt. Furthermore, restricting the use of revenue financing might also create added complexities in managing our debt portfolio.
10	NRU	Also, in response to the Northwest and Intermountain Power Producers Coalition presentation on January 26, NRU would appreciate more information to support the appropriateness of BPA's goal of achieving a leverage ratio of no higher than 60% by 2040.	See response to Avangrid et al., line 4.
11	NIPPC	NIPPC requests that BPA revisit the analysis underlying its 2018 Financial Plan and the Plan's conclusion that a 60-70% debt-to-asset ratio is an appropriate target for BPA.	See response to Avangrid et al., line 4.
12	NIPPC	NIPPC requests that BPA provide the documentation that explains how BPA determined that the industry average debt-to-asset ratio is 54% and why the debt issuers who make up that average are comparable to BPA as a borrower.	In the October 16 grounding workshop, BPA provided information from reports by two credit rating agencies, Moody's and Fitch, on the state of public power. They are based on public utilities with bond ratings and include BPA and TVA. In the Moody's assessment of leverage, BPA was significantly outside the norm, with a debt to asset ratio significantly higher than the average for large public utilities with generation. In Fitch's assessment of debt to funds

Row #	Stakeholder	Comment	BPA Response
			available for debt service (FADS), BPA was significantly higher than the norm (which is where TVA lay). We are unsure of the reference to the "industry average debt-to-asset ratio is 54%"; we do not believe our presentations made such a reference.
13	NIPPC	NIPPC also asks BPA to provide customers with a comparison of the rate implications to customers (through 2040) if BPA were to set a long-term debt-to-asset target of 60%, 70%, 75%, or 80%. Ideally, this comparison would show both anticipated revenue financing in dollars and in percentage rate increases for each rate period through 2040.	BPA has not forecast rates prospectively; any analysis would concern incremental cost implications of achieving various debt-to-asset targets. BPA has already shown this analysis in part and will not conduct additional analysis. The grounding session on October 19, 2021, showed Transmission in the 74-75% range. As a result, the 75% scenario requested is essentially the status quo, and was shown in the October grounding session. This status quo approach includes only the revenue financing needed to achieve the short-term leverage target (no increase from rate period to rate period). The only way to achieve an 80% target would be to either pay less debt than is currently anticipated or to issue more debt than is actually needed. Either action would significantly worsen the already growing debt level. The January 26th workshop provided the information associated with 60%.
14	NIPPC	NIPPC acknowledges that credit ratings and other capital market perspectives on the agency's financial health are important but not sole inputs into the Administrator's decision about the agency's financial policies. Therefore, NIPPC requests that BPA provide a more detailed financial or legal rationale for why, if a 60% debt-to-asset ratio (or any ratio much lower than 80%) will not materially improve the agency's 2 creditworthiness, such a low leverage target is necessary to set "the lowest possible rates to consumers consistent with sound business principles."	BPA believes that an indepth response to this comment is more appropriately addressed in the context of a Record of Decision. In general, though, BPA has discussed its rationale for aiming for the 60% leverage goal. Virtually no utilities use 100% debt financing because revenue financing is a sound financial practice that builds financial flexibility. 60% leverage is at the upper end of what is considered healthy. It is not too aggressive and our phase-in approach ensures modest rate impacts. 60% leverage and net neutral borrowing position are prudent and reasonable given the level of uncertainty and risk coming at both sides of the business.

Row #	Stakeholder	Comment	BPA Response
15	NIPPC	Development of a more precise and potentially less volatile methodology to forecast capital requirements in years 11-20 rather than an inflation modifier applied to year 10.	BPA is open to suggestions. The current method does not appear to have appreciable volatility.
16	AWEC	If there is a 1% increase to rates associated with this action [revenue financing], what commitment will BPA make to find additional offsetting cost reductions to mitigate the 1% rate increase?	BPA has been controlling its program costs to stay within the "at or below" the rate of inflation objective of the strategic plan. The capital financing proposal is not linked to that objective. Thus, it is not BPA's policy to offset the 1% rate increase with programmatic cost reduction. The limit of no greater than ~1% incremental rate increase associated with revenue financing is intended to phase in the need to shift to 20% revenue financing.
17	AWEC	What other actions does BPA envision having to take to address its financial health that would add to the 1% rate increase? Moreover, what are the guarantees that these goals will not be expanded in a rate case or determined to be the wrong metric, resulting in the need for other actions, as was experienced in BP-22? What stress testing has BPA performed to assess the resilience of this framework to function as anticipated in a variety of interest rate/borrowing/capital budget environments?	At this time, we do not anticipate any other actions. As with all policy setting, it is possible that adjustments would be necessary or desirable in the future. BPA is also considering ways to include some flexibility in the policy for periodic assessment of the objectives, progress, and current circumstances. BP-22 was unique, responding to what was then a looming borrowing authority shortfall and with the realization that the Leverage Policy was not working as expected. The capital financing policy could be far simpler to implement than the Leverage Policy. As mentioned in the January 26th workshop, the revenue financing could be calculated on either historical capital spending or projected spending. As capital spending (actual or forecast) grows or shrinks, the amount of revenue financing would grow or shrink.